



# Fair Funding Review Consultation

# Objectives for the consultation

- ❖ The intention of the Government is make the formula used to calculate the Relative Needs and Relative Resources of local authorities easier to understand and more transparent without significantly affecting accuracy. Also will look at something called the area cost adjustment and possible transition measures.
- ❖ Relative Needs - The amount an authority needs to spend on services. A number of costs are assessed that determine the need to spend and are weighted in the formula(s) based on importance.
- ❖ Relative Resources - This is an assessed amount of how much Council's can raise locally and is therefore deducted from the result of the relative needs assessed formula. This includes Council Tax and income from Fees and Charges but not Business Rates.
- ❖ Relative Needs - The Consultation is intended to seek views on what services should be included in specific formulas. Those not included in specific formulas would automatically default to the Foundation Formula.
- ❖ Relative Resources - The Consultation is intended to seek views on what resources to include in the formula.
- ❖ Area Cost Adjustment - This is to adjust for variations in costs due to geographical area and seeks views on what costs to apply the adjustment to. This relates to the Relative Needs only.
- ❖ Transitional measures - Where the change in formula leads to big swings in potential funding some form of transition is usually included to soften the affects for a couple of years or so.
- ❖ Achieving what the Government want will be extremely challenging.

## Formula

$$\begin{aligned} &\text{Final funding Position} \\ &= \\ &\quad \text{Relative Needs Share} \\ &\quad - \\ &\quad \text{Relative Resources Adjustment} \\ &\quad + / - \\ &\quad \text{Transitional Arrangements} \\ &\quad + \\ &\quad \text{Actual Resources Income} \end{aligned}$$

# Relative Needs

- ▶ Current Formula dates back to 2013/14 but much of the information goes back further. 15 relative needs formula with over 120 different costs assessed as part of the process.
- ▶ Current Proposal for 7 Specific Formulas:-
  - Adult Social Care.
  - Children and Young People.
  - Public Health.
  - Highways Maintenance.
  - Fire and Rescue.
  - Legacy Capital Finance.
  - Flood defence and Coastal protection.
- ▶ By definition everything else falls into the foundation formula. The biggest cost driver by far has been assessed as population Others include deprivation, rurality and fixed costs. Deprivation was not considered significant enough for the Foundation but intended to be used in 4 of the specific formulas.
- ▶ Other services considered for a specific formula but currently rejected by the government include Concessionary Fares, Waste Management, Homelessness and Fixed Costs.

*Do you have views relating to the proposed structure of the Relative Needs Assessment?*

# Area Cost Adjustment and Weighting

- ▶ There is a precedent for considering the variation in local costs for local government funding settlements and indeed other national funding assessments. E.g. police and National Health Service. Reasons given for cost variation include cost of labour, property and geographical remoteness or indeed areas that are densely populated.
- ▶ Three factors proposed are:-
  - 1) Rates/Rents - To reflect variation from area to area.
  - 2) Labour Cost - To reflect the need to secure and retain skilled staff.
  - 3) Remoteness - To reflect separation from major markets.
- ▶ These are then weighted into a single index for each funding formula.
- ▶ Assuming 8 funding formulas it will be necessary to decide the overall funding allocated to each one. Traditionally government has used the year end returns for this which reports authority spending by service. This is likely to continue.
- ▶ Shire districts will be heavily dependant on the foundation formula as 95% of their costs fall within this area. Shire Counties this is under 20% and Unitaries and London Boroughs about 28%.
- ▶ Overall the needs assessment appears to be moving funding away from lower tier to upper tier authorities.

*What are your views on the proposed approach to the area cost adjustment?*

# Relative Resources

- ▶ The Government believes it is important to take account of Council's relative ability to raise resources locally when allocating funding through the local government finance settlement.
- ▶ Main income streams include Council Tax and Fees and Charges but clearly Council Tax is the most significant and was assessed in the previous formula, Fees and Charges were not.
- ▶ Council Tax level will need to be assessed by, A measure of the Council Tax Base X a measure of the Council Tax level X a Measure of the collection rate X a measure of the tier split.
- ▶ The government is minded to continue to adjust for the various discounts and exemptions in their calculation of the Council Tax base.

***Do you agree that the various discounts and income forgone should be used in the measure of the Council Tax base?***

***Do you agree that assumptions should be made around discretionary discounts and exemptions when measuring the Council tax base?***

***Do you agree that account should be taken of income forgone due to local council tax support for working age people?***

# Relative Resources

- ▶ There are two options for the Council Tax level either using the actual or a notional amount. This has been previous practice but could work against us as our Council tax level is lower than a lot of shire districts. The Government is minded to use a notional level.
- ▶ If a uniform tax level is assumed then all else being equal the authority with the higher needs assessment would have a higher funding allocation. Similarly all else being equal an authority with a higher actual council tax level would be in a better position.
- ▶ The inter relationship between the Relative Needs assessment and the setting of a higher or lower notional council tax is quite complex but it is very likely that a lower notional assumed council tax would be better for Epping Forest than a higher.
- ▶ It is also possible that if the notional Council Tax is set too high some authorities could end up with a 100% Business Rates Tariff effectively meaning they don't get to keep any business rates income which would seem counter to what the Government is trying to achieve?
- ▶ An actual or a notional collection rate could be used to apply to the formula as could an actual or notional tier split. The government have not expressed a preference.
- ▶ What about going forward should the Council tax income be adjusted or not. The government proposes not.

***Should the Government take a notional approach to council tax levels in the Resources adjustment?***

***How should the government measure the Collection rate in the Resources adjustment?***

***How should the government determine the tier split in the Resources adjustment?***

***Should the Government apply a single measure of Council tax fixed over the period between resets?***

# Relative Resources

- ▶ The question of whether Fees and Charges in general and Car Parking income in particular should be assessed as part of the Relative Resources adjustment is also part of the consultation. Previously these haven't been included and the government is minded not to do so but asks for particular views on off-street parking income.

*Do you agree that income from Fees and Charges should not be taken into account when assessing the relative Resources adjustment?*

*If the Government were minded to do so do you have a view on the basis for taking parking income into account?*

# Transitional Arrangements

- ▶ It is likely that calculating relative needs and resources using new formulas will create changes in funding levels the Council's actually receive. In common with previous funding changes it is proposed that transitional measures that unwind over time be introduced. Four principles the government intend to use for transitional measures. Stability, Transparency, time-limited and flexibility.
- ▶ The scale of transition will depend on the baseline it is measured from the proposal is to use 2019/20 information. Adjustments might be necessary and indeed previous changes to the formula have involved adjustments on transition.

*Do you agree with the transition principles proposed?*

*Do you have any views on how the baseline is constructed for transition purposes?*

## Next steps/other comments

- ▶ The important thing to remember is that the overall settlement for the sector will be a fixed amount and the assessment for Epping Forest **relative to others** is the key rather than the assessment level itself. Or put another way It is the amount of the cake we get that is important.
- ▶ The outcome of the assessment will inform how much of our business rate income we get to keep. If the relative resources adjustment is too high we could end up not retaining any business rate income.
- ▶ It is proposed that the comments of this Committee and the Business Support Services Portfolio-holder be fed back to the MHCLG as part of the Council's response to this paper.
- ▶ This is the first of a number of consultations so there will be opportunity to comment further as proposals unfold over the next nine months or so. It is the Government's intention that by late autumn the review will be complete in time for the Local Government financial settlement in December 2019. It is again expected to be a multi-year settlement which at least makes medium term planning a bit easier.